

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	



*Stephenson, Gracik & Co., P.C.*  
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OGEMAW COUNTY ROAD COMMISSION  
WEST BRANCH, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED SEPTEMBER 30, 2007

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January 15, 2008

Independent Auditors' Report

Board of County Road Commissioners  
Ogemaw County  
West Branch, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Ogemaw County Road Commission, West Branch, Michigan, a component unit of the County of Ogemaw, as of and for the year ended September 30, 2007, which collectively comprise the Road Commission's basic financial statements, as listed in the index. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Ogemaw County Road Commission, West Branch, Michigan, as of September 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2008, on our consideration of the Ogemaw County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Ogemaw County Road Commission's basic financial statements. The individual fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Stephenson, Gracik & Co., P.C.*

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## Commission & Board of Public Works

### OGEMAW COUNTY ROAD COMMISSION

#### Management's Discussion and Analysis For the Year Ended September 30, 2007

Our discussion and analysis of Ogemaw County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the year ended September 30, 2007. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

The Road Commission, in the prior year, changed to a fiscal year ending September 30, 2006, resulting in a nine month year. The current fiscal year is a twelve month year ending September 30, 2007.

#### Overview of the Financial Statements

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present a different view of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities—this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

#### Reporting the Commission as a Whole

##### Government-Wide Statements

The statement of net assets and the statement of activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The statement of net assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

**Reporting the Commission as a Whole (Continued)**

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

**Fund Financial Statements**

The Road Commission currently has only one fund, the general operating fund. All of the Road Commission's activities are accounted for in this fund. The general operating fund is a governmental fund type. The fund financial statements begin on Exhibit C and provide detailed information about the major fund.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

**Financial Analysis of the Road Commission as a Whole**

The Road Commission's net assets increased approximately 4%, or \$1,253,649 from \$31,290,085 to \$32,543,734 for the year ended September 30, 2007. The net assets and change in net assets are summarized below.

**Net Assets**

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, and charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets, net of related debt), are considered restricted.

The restricted net assets increased by \$530,366 during 2007. The primary reason was the decrease in accounts payable of \$342,074 due at September 30, 2007, as compared to the prior year that ended on September 30, 2006.

The investment in capital assets, net of related debt, increased by \$723,283. The increase in net assets is primarily the result of the current year additions of \$2,328,025 net of the depreciation for the current year of \$1,674,742.

# OGEMAW COUNTY ROAD COMMISSION

## Management's Discussion and Analysis For the Year Ended September 30, 2007

### Financial Analysis of the Road Commission as a Whole (Continued)

Net assets as of September 30, 2007 and 2006 follows:

TABLE 1  
NET ASSETS

	September 30, 2007	September 30, 2006
Current and Other Assets	\$ 2,761,445	\$ 2,657,486
Capital Assets - net	<u>30,461,006</u>	<u>29,807,723</u>
Total Assets	<u>33,222,451</u>	<u>32,465,209</u>
Current and Other Liabilities	254,694	658,236
Long-Term Debt Outstanding	<u>424,023</u>	<u>516,888</u>
Total Liabilities	<u>678,717</u>	<u>1,175,124</u>
<u>Net Assets</u>		
Invested in Capital Assets		
Net of Related Debt	30,251,006	29,527,723
Restricted	<u>2,292,728</u>	<u>1,762,362</u>
Total Net Assets	<u>\$ 32,543,734</u>	<u>\$ 31,290,085</u>

#### Changes in Net Assets

Total net assets increased by \$1,253,649 during the current fiscal year. This reflects the degree to which ongoing expenses exceeded ongoing revenues.

TABLE 2  
CHANGES IN NET ASSETS

YEAR ENDED SEPTEMBER 30, 2007  
AND NINE MONTHS ENDED SEPTEMBER 30, 2006

	Governmental Activities 2007	Governmental Activities 2006
Program Revenue		
License and Permits	\$ 15,415	\$ 12,155
Federal Aid	437,532	339,253
State Aid	3,206,817	2,480,686
Contributions From Local Units	1,059,876	1,073,151
Charges for Services	738,288	441,302
Investment Earnings	64,933	59,228
Reimbursements	18,405	3,767
General Revenue		
Miscellaneous	81,600	38,050
Gain on Equipment Disposal	<u>26,775</u>	<u>140,881</u>
Total Revenue	<u>5,649,641</u>	<u>4,588,473</u>



Financial Analysis of the Road Commission as a Whole (Continued)

TABLE 2  
CHANGES IN NET ASSETS

YEAR ENDED SEPTEMBER 30, 2007  
AND NINE MONTHS ENDED SEPTEMBER 30, 2006

	Governmental Activities 2007	Governmental Activities 2006
Expenses		
Public Works	\$ 4,380,942	\$ 3,388,368
Interest Expense	15,050	18,690
Total Expenses	<u>4,395,992</u>	<u>3,407,058</u>
Change in Net Assets	1,253,649	1,181,415
Beginning Net Assets	<u>31,290,085</u>	<u>30,108,670</u>
Ending Net Assets	<u>\$ 32,543,734</u>	<u>\$ 31,290,085</u>

The Road Commission's Fund

The Road Commission's general operating fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for road and highway purposes.

For the year ended September 30, 2007, the fund balance of the general operating fund increased \$573,703 as compared to a decrease of \$339,637 in the fund balance for the nine months ended September 30, 2006. Total operating revenues were \$5,715,843, an increase of \$1,193,572 as compared to last year due to the nine month fiscal year in 2006. This change in revenues resulted primarily from the additional three months included in the current year as compared to 2006. The Michigan Transportation Funds increased by \$670,427, as well as an increase in state maintenance and non-maintenance in the amount of \$289,114. All other revenues netted an increase of \$234,031. Total expenditures were \$5,142,140, an increase of \$280,232 as compared to last year. This change in expenditures is again due primarily to comparison with a nine-month year resulting in an increase in road maintenance and heavy maintenance expenditures by \$149,835, an increase in state maintenance by \$269,259, an increase in equipment expense in the amount of \$75,008, an a decrease in capital outlay by \$286,478. Other miscellaneous expenses netted an increase of \$72,608.

A summary of changes in the Operating Fund is as follows:

	Operating Fund Year Ended September 30, 2007	Operating Fund Nine Months Ended September 30, 2006
Revenues		
License and Permits	\$ 15,415	\$ 12,155
Federal Aid	437,532	339,253
State Aid	3,206,817	2,480,686
Contributions From Local Units	1,126,078	1,006,949
Charges for Services	738,288	441,302
Interest	64,933	59,228
Other Revenue	<u>126,780</u>	<u>182,698</u>
Total Revenues	<u>5,715,843</u>	<u>4,522,271</u>



**Financial Analysis of the Road Commission as a Whole (Continued)**

	Operating Fund Year Ended September 30, 2007	Operating Fund Nine Months Ended September 30, 2006
Expenditures		
Public Works	\$ 5,201,556	\$ 4,631,206
Net Capital Outlay	(144,466)	142,012
Debt Service	<u>85,050</u>	<u>88,690</u>
Total Expenditures	<u>5,142,140</u>	<u>4,861,908</u>
Excess of Revenue Over (Under) Expenditures	573,703	(339,637)
Fund Balance – Beginning	<u>1,933,048</u>	<u>2,272,685</u>
Fund Balance – Ending	<u>\$ 2,506,751</u>	<u>\$ 1,933,048</u>

**Budgetary Highlights**

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2007 was \$83,800 less than the original budget primarily because the contributions from township for heavy maintenance projects were \$115,000 less than originally anticipated, due to postponement of three projects. The Michigan Transportation revenue budget was down \$20,100, the federal and state funding budget was down \$45,200, and the state trunk line maintenance and non-maintenance budgets were up \$73,000. The actual revenue recognized during 2007 was greater than the final amended budget by \$149,643. See Exhibit H for details.

The final amended expenditure budget for 2007 was \$634,500 less than the original budget. The routine maintenance expenditure budget was decreased in the amount of \$234,000 due to budget constraints in the local road fund. The heavy maintenance budget was decreased by \$310,000 by postponing projects to the next budget year due to funding cuts. Capital outlay budget decreased by \$149,600 when scheduled equipment replacements were postponed. The actual expenditures recognized during 2007 were less than the final amended budget by \$44,610. The unfavorable variances include additional state trunkline expense of \$43,164 and additional equipment maintenance costs of \$30,789. See Exhibit I for details.

## OGEMAW COUNTY ROAD COMMISSION

### Management's Discussion and Analysis For the Year Ended September 30, 2007

#### Capital Asset and Debt Administration

##### Capital Assets

As of September 30, 2007, the Road Commission had invested \$45,592,462 in capital assets. This amount represents a net increase (including additions and deductions) of \$1,555,478 or 4% as follows:

	<u>September 30, 2007</u>	<u>September 30, 2006</u>
Capital Assets Not Being Depreciated		
Land and Improvements	\$ 165,117	\$ 165,117
Infrastructure – Land Improvements	15,690,803	14,728,487
Subtotal	<u>15,855,920</u>	<u>14,893,604</u>
Capital Assets Being Depreciated		
Buildings	1,299,930	1,299,930
Equipment - Road	4,719,828	4,567,250
Equipment - Shop	144,984	147,831
Equipment - Office	201,377	210,879
Equipment - Engineer's	3,251	3,251
Equipment - Yard	261,094	249,394
Infrastructure - Bridges	1,808,575	1,801,719
Infrastructure - Roads	21,297,503	20,863,126
Subtotal	<u>29,736,542</u>	<u>29,143,380</u>
Total Capital Assets	45,592,462	44,036,984
Total Accumulated Depreciation	<u>15,131,456</u>	<u>14,229,261</u>
Total Net Capital Assets	<u>\$ 30,461,006</u>	<u>\$ 29,807,723</u>

This year's capital asset additions included the following:

Infrastructure – Land improvements	\$ 962,316
Various Resurfacing Projects	999,721
Trucks/Equipment	346,163
Yard & Storage Improvements	11,700
Office Equipment	6,773
Shop Equipment	<u>1,352</u>
Total Additions	<u>\$ 2,328,025</u>

The infrastructure is financed through federal, state and local contributions.

During 2007, the Road Commission traded in and/or disposed of equipment (road, shop, and office) with a purchase amount of \$214,059, related depreciation of \$214,059, and net book value of \$0. The Road Commission also removed fully depreciated infrastructure of \$558,488 from its capital asset listing during 2007.

## OGEMAW COUNTY ROAD COMMISSION

### Management's Discussion and Analysis For the Year Ended September 30, 2007

#### Capital Asset and Debt Administration (Continued)

##### Debt

At the year-end, the Road Commission had \$210,000 in notes versus \$280,000 last year, a decrease of 25% as shown below:

	<u>2007</u>	<u>2006</u>	<u>Variance</u>	<u>% Of Variance</u>
Revenue Notes Payable	\$ 210,000	\$ 280,000	\$ 70,000	25%

The Notes Payable represents the balance due on the addition to the buildings at the Road Commission completed in 2000. During 2007, there was no additional debt incurred.

Other obligations include accrued vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Note 5 to the financial statements.

#### Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2008 budget. One of the factors is the economy. The Road Commission derives approximately 54% of its revenues from the fuel tax collected. Using Michigan Department of Transportation projections, it is estimated that the Road Commission will receive \$75,141 (2.5%) less Michigan Transportation Fund revenues in 2008. The reason for this decrease is because of budget cuts in the state funding for roads. The Road Commission also received approximately 20% of its revenues from township contributions during 2007, and this amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. In 2008 the township contributions are estimated to be \$783,200. During 2008, we expect to receive at least \$640,760 in federal and state aid for road projects. The 2008 funded project will be 5.9 miles, as compared to two miles in 2007.

The Board realizes and the reader should understand that there are not sufficient funds available to repair and/or rebuild every road in Ogemaw County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Ogemaw County.

#### Contacting the Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the administrative office at 1250 S. M-33, P.O. Box 157, West Branch, Michigan.

OGEMAW COUNTY ROAD COMMISSION  
West Branch, Michigan

STATEMENT OF NET ASSETS  
September 30, 2007

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and cash equivalents (Note 2)	\$ 1,415,479
Accounts receivable: (Note 1)	
State trunkline maintenance	53,621
State department of transportation:	
Michigan transportation fund	521,689
Due on county road agreements	202,636
Sundry accounts	5,810
Due from local units	5,000
Inventories: (Note 1)	
Equipment materials and parts	219,790
Road materials	337,120
Other	300
Noncurrent Assets:	
Capital assets, net (Note 4)	<u>30,461,006</u>
Total Assets	<u>33,222,451</u>
<u>Liabilities</u>	
Current liabilities:	
Accounts payable	74,555
Accrued liabilities	50,239
Due to state	4,427
State trunkline equipment advance	124,940
Deferred revenue	533
Noncurrent liabilities: (Note 5)	
Due within one year	78,891
Due in more than one year	<u>345,132</u>
Total Liabilities	<u>678,717</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	30,251,006
Restricted for county road	<u>2,292,728</u>
Total Net Assets	<u><u>\$ 32,543,734</u></u>

The accompanying notes to financial statements are an integral part of this statement.

OGEMAW COUNTY ROAD COMMISSION  
West Branch, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2007

	<u>Governmental Activities</u>
Program expenses:	
Primary road maintenance	\$ 760,493
Local road maintenance	1,862,196
Net equipment expense	230,789
Net administrative expense	376,203
Compensated absences	(22,865)
Infrastructure depreciation	1,164,288
Interest expense	15,050
Other	9,838
Total program expenses	<u>4,395,992</u>
Program revenue:	
Licenses and permits	15,415
Federal aid	437,532
State aid	3,206,817
Contributions from local units	1,059,876
Charges for services	738,288
Investment earnings	64,933
Reimbursements	18,405
Total program revenue	<u>5,541,266</u>
Net program revenue	<u>1,145,274</u>
General revenue:	
Miscellaneous	81,600
Gain on equipment disposal	26,775
Total general revenue	<u>108,375</u>
Change in net assets	1,253,649
Net assets - beginning of year	<u>31,290,085</u>
Net assets - end of year	<u>\$ 32,543,734</u>

The accompanying notes to financial statements are an integral part of this statement.

OGEMAW COUNTY ROAD COMMISSION  
West Branch, Michigan

BALANCE SHEET  
 GOVERNMENTAL FUND  
September 30, 2007

	<u>General Operating Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents (Note 2)	\$ 1,415,479
Accounts receivable: (Note 1)	
State trunkline maintenance	53,621
State department of transportation:	
Michigan transportation fund	521,689
Due on county road agreements	202,636
Sundry accounts	5,810
Due from local units	5,000
Inventories: (Note 1)	
Equipment materials and parts	337,120
Road materials	219,790
Other	<u>300</u>
Total Assets	<u>\$ 2,761,445</u>
<u>LIABILITIES AND FUND EQUITY</u>	
<u>Liabilities</u>	
Accounts payable	\$ 74,555
Accrued liabilities	50,239
Due to state	4,427
State trunkline equipment advance	124,940
Deferred revenue	<u>533</u>
Total liabilities	254,694
<u>Fund Equity</u>	
Fund balance:	
Unreserved and undesignated	<u>2,506,751</u>
Total Liabilities and Fund Equity	<u>\$ 2,761,445</u>

The accompanying notes to financial statements are an integral part of this statement.

OGEMAW COUNTY ROAD COMMISSION  
West Branch, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO  
 NET ASSETS OF GOVERNMENTAL ACTIVITIES  
September 30, 2007

Total governmental fund balance		\$ 2,506,751
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental fund. Capital assets at year end consist of:		
Capital asset cost	\$ 45,592,462	
Capital asset accumulated depreciation	<u>(15,131,456)</u>	
		30,461,006
Long-term liabilities, including notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental fund. Long-term liabilities at year end consist of:		
Notes payable	(210,000)	
Compensated absences payable	<u>(214,023)</u>	
Total long-term liabilities		<u>(424,023)</u>
Total net assets - governmental activities		<u>\$ 32,543,734</u>

The accompanying notes to financial statements are an integral part of this statement.



OGEMAW COUNTY ROAD COMMISSION  
West Branch, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCE  
 GOVERNMENTAL FUND  
For the Year Ended September 30, 2007

	<u>General Operating Fund</u>
<u>Revenue</u>	
Licenses and permits	\$ 15,415
Federal aid	437,532
State aid	3,206,817
Contributions from local units	1,126,078
Charges for services	738,288
Interest	64,933
Other revenue	126,780
Total revenue	<u>5,715,843</u>
<u>Expenditures</u>	
Public works	5,201,556
Net capital outlay	(144,466)
Debt service	85,050
Total expenditures	<u>5,142,140</u>
Excess of revenue over expenditures	573,703
Fund balance - beginning of year	<u>1,933,048</u>
Fund balance - end of year	<u>\$ 2,506,751</u>

The accompanying notes to financial statements are an integral part of this statement.

OGEMAW COUNTY ROAD COMMISSION  
West Branch, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND  
 TO THE STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2007

Total net change in fund balance - governmental fund	\$	573,703
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Amounts reported for governmental activities in the statement of activities are different because:

The governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital outlays reported in the governmental fund	\$ 2,328,025	
Current year depreciation expense	<u>(1,674,742)</u>	
Net difference		653,283

Repayment of note principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental fund.	70,000
---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------

Receivables not currently available are reported as revenue when collected or when currently available in the fund financial statements but are recognized as revenue when earned in the government-wide financial statements:	
Due on county road agreements September 30, 2006	(66,202)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:	
Net change in accrued compensated absences	<u>22,865</u>

Change in net assets of governmental activities	\$	<u><u>1,253,649</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

OGEMAW COUNTY ROAD COMMISSION  
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Ogemaw County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. The Road Commission is considered to be a local government unit. The following is a summary of the significant accounting policies.

A. Reporting Entity

The Ogemaw County Road Commission is, for financial reporting purposes, within generally accepted accounting principles, a discrete component unit of Ogemaw County and has been combined with Ogemaw County's financial statements.

The Road Commission's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. All activities over which the Road Commission exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designations of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund money distributed to the County, which is earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

B. Fund Accounting

The Road Commission uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Road Commission functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The special revenue fund of the Road Commission is in the governmental category.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the Road Commission's major governmental fund:

Special Revenue Fund – The Special Revenue Fund is the general operating fund of the Road Commission. It is used to account for all financial resources.

C. Basis of Presentation

The Road Commission's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

OGEMAW COUNTY ROAD COMMISSION  
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

**Government-wide Financial Statements**

The statement of net assets and the statement of activities display information about the Road Commission as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the Road Commission that are governmental and those that are considered business-type activities. The Road Commission does not currently have any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental fund.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Road Commission's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Road Commission, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Road Commission.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use. Restricted assets are used first to fund appropriations before unrestricted assets are used.

**Fund Financial Statements**

Fund financial statements report detailed information about the Road Commission. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The Road Commission's special revenue fund is considered a major fund.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. The governmental fund type is accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. The financial statements for the governmental fund are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenue, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The governmental fund uses the modified accrual basis of accounting.

OGEMAW COUNTY ROAD COMMISSION  
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

**Revenues – Exchange and Non-exchange Transactions**

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recognized in the fiscal year in which the resources are measurable and available. Available, means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Road Commission, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the Road Commission receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Road Commission must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Road Commission on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: charges for services, interest, grants and rentals.

**Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

**Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

OGEMAW COUNTY ROAD COMMISSION  
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Other

Cash and Cash Equivalents and Investments

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Road Commission are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments. Investments are stated at fair market value.

Receivables

Receivables at September 30, 2007 consist of accounts (fees), intergovernmental grants and county road agreements. All receivables are considered collectible in full. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

The allowance for doubtful accounts at September 30, 2007 was \$0.

Inventories

Inventories are stated at cost as determined on the first-in, first-out method of accounting. Inventory items are charged to road construction, maintenance, equipment repairs, and operations as used.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g. road, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. With one exception, any piece of equipment with a Schedule C equipment rental rate must be classified as a capital asset regardless of value. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	20 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	10 years
Yard Equipment	10 to 30 years
Office Equipment	10 years
Infrastructure—Roads	8 to 30 years
Infrastructure—Bridges	12 to 50 years

OGEMAW COUNTY ROAD COMMISSION  
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Other (Continued)

Compensated Absences

The Road Commission reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the Commission's termination policy.

The entire compensated absences liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Accrued Compensated Absences Payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from the governmental fund are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Road Commission or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended September 30, 2007.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.



OGEMAW COUNTY ROAD COMMISSION  
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Other (Continued)

Budgets and Budgetary Accounting

The Road Commission normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Road Commission Engineer/Manager submits to the Board of Commissioners a proposed operating budget which includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of a Board resolution.

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted, or as amended by the Road Commission Board.

Budgets shown in the financial statements are adopted on the modified accrual basis of accounting, which is the same basis as the fund financial statements, and consist only of those amounts contained in the formal budget approved and amended by the Road Commission Board.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

Cash and Cash Equivalents	<u>\$ 1,415,479</u>
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The breakdown between deposits and investments is as follows:

Bank Deposits (checking and savings accounts and certificates of deposit)	\$ 1,155,065
Investments in Money Markets and Commercial Paper	260,264
Petty Cash and Cash on Hand	<u>150</u>
	<u>\$ 1,415,479</u>

As of September 30, 2007, the Road Commission had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Money Markets	\$ 229	Daily
Commercial Paper	<u>260,035</u>	2 Months
	<u>\$ 260,264</u>	

OGEMAW COUNTY ROAD COMMISSION  
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

In accordance with its investment policy, the Road Commission will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Road Commissions known as cash requirements.

Credit Risk

State law authorizes investments in accordance with Act 196, PA 1997 and Section 129.91 of the Michigan Compiled Laws. The Road Commission's investment in money markets was rated AAA; the commercial paper is rated A1+.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. As of September 30, 2007, \$856,818 of the Road Commission's bank balance of \$1,160,411 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Concentration of Credit Risk

The Road Commission will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Road Commission's investment in single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The following are investments of the Road Commission that represent more than 5% of the Road Commission's total investments:

General Electric commercial paper held at Smith Barney which represent 99.9% of the Road Commission's total investments.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Road Commission will minimize custodial credit risk, by; limiting investments to the types of securities approved in the Road Commission's investment policy which is in accordance with State law, and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Road Commission will do business.

Foreign Currency Risk

The Road Commission is not authorized to invest in investments which have this type of risk.

OGEMAW COUNTY ROAD COMMISSION  
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments:

The Board of County Road Commissioners has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Road Commission to deposit and invest in the following:

- \* Accounts of federally insured banks, credit unions and savings and loan associations
- \* Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- \* United States government or federal agency obligation repurchase agreements
- \* Banker's acceptances of United States banks
- \* Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- \* Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Road Commission's deposits and investments are in accordance with statutory authority.

NOTE 3 - DEFERRED COMPENSATION PLAN

The Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC) Section 457. The assets of the plans are held in trust, in a custodial account as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof, for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the Road Commission for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Road Commission's financial statements.

OGEMAW COUNTY ROAD COMMISSION  
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the Road Commission for the current year is as follows:

	<u>Balance</u> <u>10/01/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>09/30/07</u>
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land and Improvements	<u>\$14,893,604</u>	<u>\$ 962,316</u>	<u>\$ 0</u>	<u>\$15,855,920</u>
Capital Assets Being Depreciated:				
Buildings	1,299,930	0	0	1,299,930
Equipment - road	4,567,250	346,163	193,585	4,719,828
Equipment - shop	147,831	1,352	4,199	144,984
Equipment - office	210,879	6,773	16,275	201,377
Equipment - engineer's	3,251	0	0	3,251
Equipment -yard	249,394	11,700	0	261,094
Infrastructure - bridges	1,801,719	6,856	0	1,808,575
Infrastructure - roads	<u>20,863,126</u>	<u>992,865</u>	<u>558,488</u>	<u>21,297,503</u>
Subtotal	<u>29,143,380</u>	<u>1,365,709</u>	<u>772,547</u>	<u>29,736,542</u>
Less Accumulated Depreciation for:				
Buildings	445,164	39,913	0	485,077
Equipment - road	3,508,184	436,062	193,585	3,750,661
Equipment - shop	104,884	7,516	4,199	108,201
Equipment - office	136,595	18,326	16,275	138,646
Equipment - engineer's	3,081	40	0	3,121
Equipment -yard	209,626	8,597	0	218,223
Infrastructure - bridges	530,299	42,095	0	572,394
Infrastructure - roads	<u>9,291,428</u>	<u>1,122,193</u>	<u>558,488</u>	<u>9,855,133</u>
Subtotal	<u>14,229,261</u>	<u>1,674,742</u>	<u>772,547</u>	<u>15,131,456</u>
Net Capital Assets Being Depreciated	<u>14,914,119</u>	<u>(309,033)</u>	<u>0</u>	<u>14,605,086</u>
Total Capital Assets				
Net of Depreciation	<u>\$29,807,723</u>	<u>\$ 653,283</u>	<u>\$ 0</u>	<u>\$30,461,006</u>

OGEMAW COUNTY ROAD COMMISSION  
West Branch, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007NOTE 4 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to programs of the Road Commission as follows:

County	
Direct equipment expense	\$ 436,063
Indirect equipment expense	50,662
Administrative expense	23,729
Infrastructure	<u>1,164,288</u>
Total Depreciation Expense	<u>\$ 1,674,742</u>

NOTE 5 - LONG-TERM LIABILITIES

Following is a summary of pertinent information concerning the Road Commission's long-term liabilities:

A. Michigan Transportation Fund Revenue Note

The general long-term debt includes a note payable to the Michigan Transportation Fund for the financing of construction of additions and improvements to the facilities utilized for Roadway operations. The note is dated June 1, 2000 and repayable from the general operating revenues of the Road Commission.

Interest Rate	Maturity Year	Outstanding 09/30/07		
		Principal	Interest	Total
4.9% to 5.5%	2010	<u>\$ 210,000</u>	<u>\$ 22,820</u>	<u>\$ 232,820</u>

## Annual Debt Service Requirements

	Governmental Activities		
	Principal	Interest	Total
2008	\$ 70,000	\$ 11,340	\$ 81,340
2009	70,000	7,630	77,630
2010	<u>70,000</u>	<u>3,850</u>	<u>73,850</u>
	<u>\$ 210,000</u>	<u>\$ 22,820</u>	<u>\$ 232,820</u>

B. Compensated Absences

The compensated absences balance represents benefits which County Road Commission employees have a vested right to receive upon termination and/or retirement from employment in accordance with formulas in negotiated contracts.

Vacation	\$ 115,480
Sick	<u>98,543</u>
	214,023
Less estimated current portion	<u>8,891</u>
Total long-term portion	<u>\$ 205,132</u>

OGEMAW COUNTY ROAD COMMISSION  
West Branch, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)C. Changes in Long-Term Liabilities

<u>Governmental Activities</u>	<u>Balance</u> <u>October 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>September 30, 2006</u>	<u>Amount Due</u> <u>In One Year</u>
Notes payable	\$ 280,000	\$ 0	\$ 70,000	\$ 210,000	\$ 70,000
Compensated absences	<u>236,888</u>	<u>0</u>	<u>22,865*</u>	<u>214,023</u>	<u>8,891</u>
	<u>\$ 516,888</u>	<u>\$ 0</u>	<u>\$ 92,865</u>	<u>\$ 424,023</u>	<u>\$ 78,891</u>

The interest expenditure on long-term obligations for the year was \$15,050.

\*This amount includes a current year transfer of prior year balances of \$41,812 for compensated absences of employees electing to participate in a health savings account starting in the current year as well as an addition of \$18,947 which represents the net additions and retirements of all other employees activity in the Road Commissions compensated absence plan. The net deletion amount of \$22,865 is presented on the statement of activities as compensated absences with a credit balance under program expenses.

NOTE 6 - RETIREMENT SYSTEM - MERS OPERATEDPlan Description

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plan is affiliated with the Municipal Employees Retirement System (MERS) of Michigan, an agent multiple-employer, state-wide, public employee pension created under Public Act 135 of 1945, and now operating under Public Act 220 of 1996, and the MERS Plan Document as revised. Any municipality within the State may elect to become a participating member of MERS or elect to terminate participation by a majority vote of the municipality's governing body. Changes in benefit coverage are available to bargaining units after approval by a majority of the municipality's governing body. The MERS of Michigan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MERS of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling 1-800-767-6377.

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate. The current rate is 11.27% of annual covered payroll for General-Union Members and 24.55% for General-Non-Union Members. The contribution requirements of the plan members are 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. If a member leaves the employ of the Road Commission, or dies, without a retirement allowance or other benefit payable on his account, the member's accumulated contributions (with interest) are refunded to the member, if living, or to the members beneficiary. The contribution requirements are established and may be amended by the MERS Retirement Board.

OGEMAW COUNTY ROAD COMMISSION  
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 6 - RETIREMENT SYSTEM - MERS OPERATED (CONTINUED)

Annual Pension Cost

For the year ended September 30, 2007, the Road Commission's annual pension cost of \$188,476 was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2006 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 8.0% investment rate of return, (b) projected salary increases of 4.5% per year compounded annually, (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit, and (d) 2.5% per year cost-of-living adjustments. Both (a) and (b) include an inflation component. The Road Commission's unfunded actuarial accrued liability has been calculated and accrued at September 30, 2007.

The Road Commission has adopted GASB 27 *Accounting for Pensions by State and Local Governmental Employer*. The following pension information is presented in accordance with GASB 27:

Actuarial Accrued Liability from December 31, 2006

Actuarial Valuation

Retirees and beneficiaries currently receiving benefits	\$ 3,390,537
Terminated employees (vested former members) not yet receiving benefits	147,618
Non-vested terminated employees (pending refunds of accumulated member contributions)	14,254
Current employees -	
Accumulated employee contributions including allocated investment income	788,726
Employer financed	<u>2,391,345</u>
Total Actuarial Accrued Liability	6,732,480

Net assets available for benefits at actuarial value (Market value is \$4,710,986)	<u>4,645,994</u>
---------------------------------------------------------------------------------------	------------------

Unfunded Actuarial Accrued Liability	<u>\$ 2,086,486</u>
--------------------------------------	---------------------

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
December 31, 2005	\$ 173,050	100%	\$ 0
September 30, 2006	\$ 130,636	100%	\$ 0
September 30, 2007	\$ 188,476	100%	\$ 0

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/04	\$ 4,312,536	\$ 6,478,996	\$ 2,166,460	67%	\$ 1,226,070	177%
12/31/05	\$ 4,412,720	\$ 6,709,821	\$ 2,297,101	66%	\$ 1,258,094	183%
12/31/06	\$ 4,645,994	\$ 6,732,480	\$ 2,086,486	69%	\$ 1,224,494	170%



OGEMAW COUNTY ROAD COMMISSION  
West Branch, MichiganNOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007NOTE 7 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended September 30, 2007, the Federal aid received and expended by the Road Commission was \$437,532 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the road commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if they expended \$500,000 or more for negotiated projects.

NOTE 8 - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, section 18 (1), as amended, provides that a County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the year ended September 30, 2007, the County Road Commission incurred expenditures in certain accounts which were in excess of the amounts appropriated.

<u>Expenditures</u>	<u>Total Appropriation</u>	<u>Amount of Expenditure</u>	<u>Budget Variance</u>
Primary road - heavy bridge	\$ 5,000	\$ 6,855	\$ 1,855
State trunkline maintenance	\$ 645,000	\$ 688,164	\$ 43,164
Equipment expense – net	\$ 200,000	\$ 230,789	\$ 30,789
Administrative expense – net	\$ 360,000	\$ 376,203	\$ 16,203
Other	\$ 8,000	\$ 9,838	\$ 1,838

NOTE 9 - CONTINGENCIESPartial Self-Insurance - General Liability

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool. As a member of the Pool, the Road Commission is partially self-insured for general and auto liability, public official's errors and omissions, umbrella liability, and state trunkline auto liability. Under most circumstances, the municipality's maximum coverage per occurrence is limited as follows:

<u>Type of Risk</u>	<u>Coverage</u>	<u>Deductible</u>
Auto liability	\$ 10,500,000 each occurrence	\$ 1,000
Public officials errors and omissions	\$ 10,000,000 each occurrence	\$ 0
Umbrella liability	\$ 10,500,000 each occurrence	\$ 1,000
State trunkline auto liability	Bodily Injury \$250,000/\$500,000 each person/each accident	\$ 0
	Property Damage \$1,000,000 each accident	\$ 0

OGEMAW COUNTY ROAD COMMISSION  
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2007

NOTE 9 - CONTINGENCIES (CONTINUED)

Settled claims for insurance have not exceeded the amount of insurance coverage in any of the past three years.

State Trunkline Contracts

The financial transactions of the Road Commission are subject to audit by the State of Michigan Department of Transportation, pursuant to the terms of its State Trunkline Contract. Audit adjustments could either increase or decrease the revenue receivable from the State.

As of September 30, 2007, the audit of State Trunkline Contracts for 2006 and 2007 have not been completed.

REQUIRED SUPPLEMENTARY INFORMATION

OGEMAW COUNTY ROAD COMMISSION  
West Branch, Michigan

OPERATING FUND  
 STATEMENT OF REVENUE AND OTHER FINANCIAL RESOURCES  
 BUDGETARY COMPARISON SCHEDULE  
For the Year Ended September 30, 2007

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
<u>Licenses and permits</u>				
Permits	\$ 13,000	\$ 13,900	\$ 15,415	\$ 1,515
<u>Federal aid</u>				
Surface transportation program	100,000	103,600	101,319	(2,281)
Economic development fund				
Rural primary (D)	60,000	56,500	55,193	(1,307)
Safety grant	320,400	278,600	281,020	2,420
<u>State aid</u>				
Michigan transportation fund				
Engineering	10,000	10,000	10,000	0
Primary roads	1,864,400	1,847,700	1,834,401	(13,299)
Local roads	1,178,600	1,175,200	1,180,221	5,021
Economic development fund				
Forest road	0	0	88,000	88,000
Rural primary (D)	100,000	96,500	94,195	(2,305)
<u>Contributions</u>				
City and village contributions	0	0	738	738
Township road agreements	1,240,600	1,123,600	1,122,119	(1,481)
Other contributions	0	2,000	3,221	1,221
<u>Charges for services</u>				
State trunkline maintenance	585,000	674,000	722,227	48,227
State trunkline non-maintenance	20,000	4,000	4,088	88
Salvage sales	2,000	6,800	8,666	1,866
Sale of materials	3,000	4,400	3,307	(1,093)
<u>Other revenue</u>				
Interest	80,000	61,300	64,933	3,633
Reimbursements	10,000	10,000	18,405	8,405
Miscellaneous	18,000	0	0	0
Gain on equipment disposal	45,000	26,700	26,775	75
Pit depletion restoration	0	71,400	81,600	10,200
Total revenue	5,650,000	5,566,200	<u>\$ 5,715,843</u>	<u>\$ 149,643</u>
Fund balances - beginning of year	<u>1,933,048</u>	<u>1,933,048</u>		
Total budget	<u>\$ 7,583,048</u>	<u>\$ 7,499,248</u>		

OGEMAW COUNTY ROAD COMMISSION  
West Branch, Michigan

OPERATING FUND  
 STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL  
 BUDGETARY COMPARISON SCHEDULE  
For the Year Ended September 30, 2007

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
<u>Primary road</u>				
Heavy maintenance	\$ 876,000	\$ 800,000	\$ 737,514	\$ 62,486
Maintenance	959,000	790,000	760,493	29,507
Heavy bridge	0	5,000	6,855	(1,855)
<u>Local road</u>				
Heavy maintenance	1,454,000	1,220,000	1,217,668	2,332
Maintenance	1,271,000	1,206,000	1,169,944	36,056
State trunkline maintenance	585,000	645,000	688,164	(43,164)
State trunkline non-maintenance	20,000	4,100	4,088	12
<u>Equipment expense - net</u>	193,000	200,000		
Direct			\$ 945,734	
Indirect			374,358	
Operating			294,623	
Less: equipment rental			<u>(1,383,926)</u>	230,789
				(30,789)
<u>Administrative expense - net</u>	350,000	360,000		
Administrative expense			437,365	
Less: overhead - state			(60,683)	
purchase discounts			<u>(479)</u>	376,203
				(16,203)
<u>Capital outlay - net</u>	13,200	(136,400)		
Capital outlay			365,988	
Less: depreciation and depletion			<u>(510,454)</u>	(144,466)
				8,066
Other	15,000	8,000	9,838	(1,838)
<u>Debt Service</u>	85,050	85,050		
Debt principal payment			70,000	
Interest expense			<u>15,050</u>	85,050
				0
Total expenditures	5,821,250	5,186,750	<u>\$ 5,142,140</u>	<u>\$ 44,610</u>
Fund balance appropriations - end of year	<u>1,761,798</u>	<u>2,312,498</u>		
Total budget	<u>\$ 7,583,048</u>	<u>\$ 7,499,248</u>		

#### OTHER DATA

OGEMAW COUNTY ROAD COMMISSION  
West Branch, Michigan

OPERATING FUND  
 ANALYSIS OF CHANGES IN FUND BALANCES  
For the Year Ended September 30, 2007

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Total revenue	\$ 2,431,276	\$ 2,371,772	\$ 912,795	\$ 5,715,843
Total expenditures	<u>1,710,033</u>	<u>2,752,853</u>	<u>679,254</u>	<u>5,142,140</u>
Excess of revenue over (under) expenditures	721,243	(381,081)	233,541	573,703
Other financing sources (uses): Optional transfers in (out)	<u>(551,820)</u>	<u>551,820</u>	<u>0</u>	<u>0</u>
Excess of revenue and other sources over (under) expenditures and other uses	169,423	170,739	233,541	573,703
Fund balances - beginning of year	<u>994,140</u>	<u>36,534</u>	<u>902,374</u>	<u>1,933,048</u>
Fund balances - end of year	<u>\$ 1,163,563</u>	<u>\$ 207,273</u>	<u>\$ 1,135,915</u>	<u>\$ 2,506,751</u>

OGEMAW COUNTY ROAD COMMISSION  
West Branch, Michigan

OPERATING FUND  
 ANALYSIS OF REVENUE  
For the Year Ended September 30, 2007

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
<u>Licenses and permits</u>				
Permits	\$ 0	\$ 0	\$ 15,415	\$ 15,415
<u>Federal aid</u>				
Surface transportation program	101,319	0	0	101,319
Economic development fund				
Rural primary (D)	55,193	0	0	55,193
Safety grant	281,020	0	0	281,020
<u>State aid</u>				
Michigan transportation fund				
Engineering	5,000	5,000	0	10,000
Allocation	1,834,401	1,180,221	0	3,014,622
Economic development fund				
Forest road	0	88,000	0	88,000
Rural primary (D)	94,195	0	0	94,195
<u>Contributions</u>				
City and village contributions	0	738	0	738
Township road agreements	26,754	1,095,365	0	1,122,119
Other contributions	0	1,221	2,000	3,221
<u>Charges for services</u>				
State trunkline maintenance	0	0	722,227	722,227
State trunkline non-maintenance	0	0	4,088	4,088
Salvage sales	0	0	8,666	8,666
Sale of materials	0	0	3,307	3,307
<u>Other revenue</u>				
Interest	33,394	1,227	30,312	64,933
Reimbursements	0	0	18,405	18,405
Gain on equipment disposal	0	0	26,775	26,775
Pit depletion restoration	0	0	81,600	81,600
Total revenue	<u>\$ 2,431,276</u>	<u>\$ 2,371,772</u>	<u>\$ 912,795</u>	<u>\$ 5,715,843</u>



OGEMAW COUNTY ROAD COMMISSION  
West Branch, Michigan

OPERATING FUND  
 ANALYSIS OF EXPENDITURES  
For the Year Ended September 30, 2007

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
<u>Primary road</u>				
Heavy maintenance	\$ 737,514	\$ 0	\$ 0	\$ 737,514
Maintenance	760,493	0	0	760,493
Heavy bridge	6,855			6,855
<u>Local road</u>				
Heavy maintenance	0	1,217,668	0	1,217,668
Maintenance	0	1,169,944	0	1,169,944
State trunkline maintenance	0	0	688,164	688,164
State trunkline non-maintenance	0	0	4,088	4,088
Equipment expense - net (Per Exhibit I)	59,728	134,481	36,580	230,789
Administrative expense - net (Per Exhibit I)	145,443	230,760	0	376,203
Capital outlay - net (Per Exhibit I)	0	0	(144,466)	(144,466)
Other	0	0	9,838	9,838
Debt principal payment	0	0	70,000	70,000
Interest expense	0	0	15,050	15,050
Total expenditures	<u>\$ 1,710,033</u>	<u>\$ 2,752,853</u>	<u>\$ 679,254</u>	<u>\$ 5,142,140</u>



*Stephenson, Gracik & Co., P.C.*  
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Kyle E. Troyer, CPA

Herman A. Bertulcitt

January 15, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of County Road Commissioners  
Ogemaw County  
West Branch, Michigan

We have audited the financial statements of the governmental activities and the major fund of the Ogemaw County Road Commission, West Branch, Michigan, as of and for the year ended September 30, 2007, which collectively comprise the Road Commission's basic financial statements and have issued our report thereon dated January 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Ogemaw County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Ogemaw County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Ogemaw County Road Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified one deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Ogemaw County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Ogemaw County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Ogemaw County Road Commission's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Financial Statement Preparation

The Ogemaw County Road Commission prepares various financial information throughout the year to assess operations and the financial condition of the Road Commission. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the Road Commission relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

*Stephenson, Gracik & Co., P.C.*

Board of County Road Commissioners  
Ogemaw County  
January 15, 2008  
Page Two

The Ogemaw County Road Commission has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Road Commission is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Road Commission would not be in a position to detect the errors or omissions.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Ogemaw County Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ogemaw County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the Ogemaw County Road Commission in a separate letter dated January 15, 2008.

This report is intended solely for the information and use of management, the Road Commission Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Gracik & Co., P.C.*



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Herman A. Bertulot

January 15, 2008

Board of County Road Commissioners  
Ogemaw County  
West Branch, Michigan

Dear Board Members:

We have audited the financial statements of the governmental activities and the major fund of the Ogemaw County Road Commission for the year ended September 30, 2007, and have issued our report thereon dated January 15, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated September 6, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Ogemaw County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Ogemaw County Road Commission's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Ogemaw County Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Ogemaw County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Ogemaw County Road Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The audit adjustments, which include material misstatements detected as a result of audit procedures, were provided to and corrected by management.



# Stephenson, Gracik & Co., P.C.

Board of County Road Commissioners  
Ogemaw County  
January 15, 2008  
Page Two

## Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

## Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

## Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Ogemaw County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

## Additional Information

As a result of our study and evaluation of the internal controls and compliance as described in the third and fourth paragraphs, certain matters came to our attention upon which we would like to comment and offer the following recommendations:

### Budget Control

The Road Commission's general operating fund included expenditures that exceeded appropriated amounts in various functions. We recommend that the Board continue to review and amend the budget periodically as a matter of good fiscal policy in accordance with the Uniform Budgeting and Accounting Act. When adopting and amending the budget, the Board should include the effects of year-end adjustments required by the modified accrual basis of accounting.

### Financial Statement Preparation

The Ogemaw County Road Commission prepares various financial information throughout the year to assess operations and the financial condition of the Road Commission. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the Road Commission relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

The Ogemaw County Road Commission has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Road Commission is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Road Commission would not be in a position to detect the errors or omissions.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the Road Commission.

This report is intended solely for the use of management, the Road Commission Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Gracik & Co., P.C.*